

SERVING THE UNDERSERVED: PROVIDING RELIEF TO THE DISPLACED WORKERS IN NEPAL DURING THE COVID-19 CRISIS*

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This note discusses the impacts of COVID-19 and lockdowns on Nepal's domestic labor market, using data from the 2017/18 Nepal Labor Force Survey (NLFS) and the 2018 National Economic Census (NEC).¹ Income relief measures targeted for formal sector firms widely practiced in advanced economies will have limited impacts on saving livelihoods of displaced workers in Nepal. Policy responses should focus on expanding the coverage of social assistance programs or other temporary measures to those who are underserved by the existing programs. These policy interventions need to be accompanied by long-term efforts to set up near real-time monitoring of labor market conditions and establish and maintain core registries of people and businesses so that the government can monitor labor market conditions and deliver relief measures when and where necessary.²

The COVID-19 outbreak has become the worst global pandemic in the last 100 years. The pandemic caused more than 37 million infections and more than one million deaths worldwide as of the time of writing (John Hopkins University 2020). More than 80 percent of the countries worldwide have imposed social distancing measures to limit people's movement and the spread of the viral infection (University of Oxford 2020). The global economy is plunging into the biggest crisis since the Great Depression and 90 percent of countries are projected to experience negative economic growth in 2020 (Loayza 2020). Global poverty, as measured by the international poverty line, is projected to increase for the first time in 20 years (Mahler et al. 2020).

The COVID-19 pandemic brought about devastating shocks to labor markets globally with significant declines

in trade volume, overall labor demand, and remittance inflow to developing countries (Loayza, 2020b). Close to half of the global labor workforce have lost or will lose their livelihoods due to the continued decline in working hours (United Nations 2020). International remittances inflow is projected to decline by 20 percent globally, 22 percent in South Asia (World Bank 2020d), and as much as 43 percent between March and May 2020 in Nepal compared to the previous year (World Bank 2020b). This crisis is particularly challenging as virtually all countries in the world are affected simultaneously and it strips countries of the many coping mechanisms that are usually available in the case of country- or region-specific crises such as natural disasters.

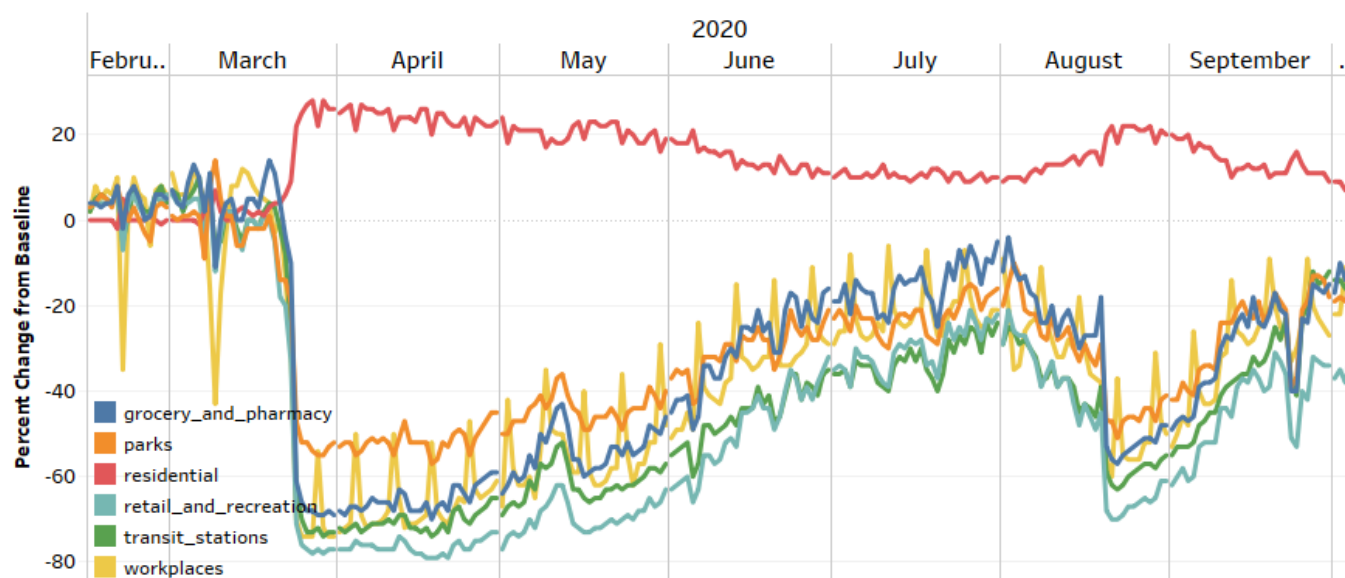
In many developing countries, the available policy options to provide immediate relief is limited. First, labor

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¹ Both NLFS and NEC are conducted by the Central Bureau of Statistics. For this note, we use NEC data aggregated at the level of local governments, available at <https://cbs.gov.np/economic-census/>

² All figures are available for download and customization at https://bit.ly/covid19JIT_servingtheunderserved

Figure 1. Google Community Reports



Source: Google LLC "Google COVID-19 Community Mobility Reports" Accessed: October 6, 2020.

markets in developing countries are characterized by large informal sectors where workers are not eligible for unemployment insurance or redundancy payments. Second, coverage of existing social assistance programs is often limited. Third, developing countries tend to have limited fiscal space to provide immediate relief. The welfare impacts of the pandemic and lockdowns are likely significantly higher in developing countries due to their limited ability to cope with crises (The Economist 2020).

The COVID-19 and lockdown in Nepal

The Government of Nepal imposed a nationwide lockdown on March 24. Strict movement control orders remained even after other countries started relaxing lockdowns.³ Immediately after the lockdown in March, drastic changes are observed in the way people move according to Google Community Report.

Google data signals a significant slowdown in economic activities. While this dataset only includes smartphone users who enabled location services, a very small and

non-random sample of the population, it tracks the movement of the same population overtime. Trends from this dataset show that people spend more time at home and visit other places much less frequently – 60 percent less for Retail/Recreation in April and May – since the lockdown. There has been a slow and gradual change towards normalcy since late April, but the resumption of a stricter lockdown on August 24 reversed this trend (Figure 1).⁴

In Nepal, several policy measures are announced to mitigate the economic and social impacts of the pandemic and lockdown. These include, for example, additional insurance coverage for health workers, lending support to cottage, small and medium enterprises (IMF 2020), food assistance by the local municipalities, and utility waivers for households and firms (Gentilini et al. 2020). Detailed information on implementation such as the geographical scope, number of beneficiaries and duration of support is yet to be available, as the pandemic is ongoing and the situation remains very fluid in Nepal.⁵

³ Government of Nepal announced easement of the nationwide lockdown effective June 15th. See The Kathmandu Post, 2020.

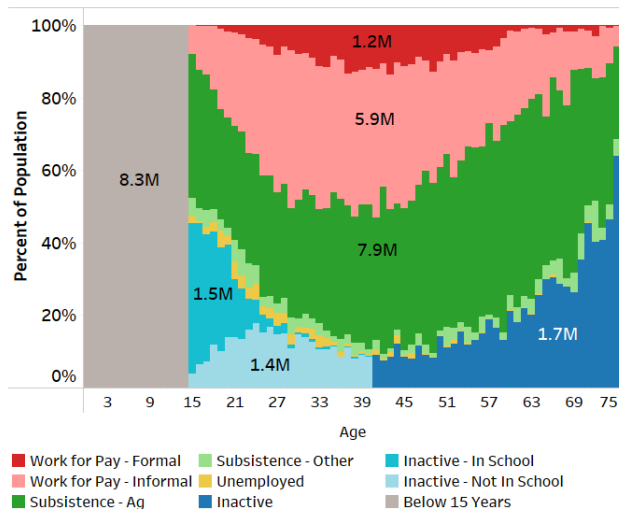
⁴ These orders were replaced with "relaxed" prohibitory orders on September 17 (The Himalayan Times 2020).

⁵ An exception is a blog post by Carter and Khadka (2020) that reports implementation of a food voucher scheme in four local municipalities.

Overview of the Labor Market in Nepal

Large informal sectors and subsistence agriculture characterizes Nepal's labor market (*Figure 2*). Nepal has approximately 20.7 million working age population, defined as 15 years or older, not including absentee population.⁶ Of those, 4.6 million people are inactive and 16.1 million are active labor force. Half of the active labor force engages in subsistence work (8.7 million). Of those, more than 90 percent (7.9 million) are in subsistence agriculture. Only 7.1 million people are wage earners (work for pay), of which 1.2 million (17 percent) work in the formal sector⁷ and the rest (5.9 million) work with unregistered firms without social security benefits.⁸

Figure 2. Profiles of Working Age Population in Nepal



Source: World Bank Staff calculation using the 2017/18 NLFS

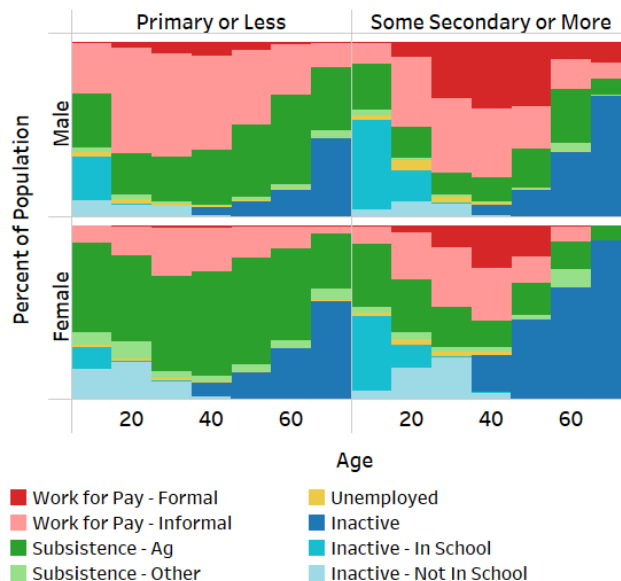
Temporary income support such as unemployment insurance and redundancy payments would have limited impacts in Nepal as it would mainly benefit those who have a formal employment. According to the NLFS, only 12 percent of the households have at least one person in this group. People in this group are much more likely to be male or better educated: 18 percent of male and 7

⁶ This note follows the classifications in the recently published Jobs Diagnostic by the World Bank and differs from those by the Central Bureau of Statistics (2019). See Government of Nepal (2019b)

⁷ Formal sector firms are defined as those registered with the government or providing social security benefits.

percent of female 15 years old or above with at least some secondary education belong to this group, while it is only 4 percent (male) and 1 percent (female) for those who have primary education or less (*Figure 3*).

Figure 3. Profiles of Working Age Population by Sex and Educational Attainment in Nepal



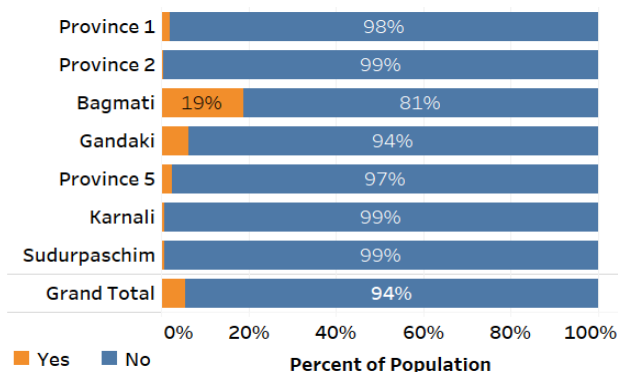
Source: World Bank Staff calculation using the 2017/18 NLFS

The lockdown likely affected almost all segments of the labor market in Nepal. A phone survey of households in rural Western Nepal shows a significant decline in working hours for adult males after the March lockdown, lower than the pre-harvest lean season in 2019 (Mobarak and Vernot 2020). Even in the small formal sectors where some jobs may be performed away from office amid social distancing orders, working from home is extremely challenging in Nepal due to the limited availability of high-speed internet and ownership of computers at home (*Figure 4*). Only six percent of the population live in a household that owns a computer and has access to the Internet, according to the 2017/18 NLFS.⁹

⁸ The remaining 0.3 million are unemployed. The unemployment rate implied by this chart differs from the official unemployment rate by the Central Bureau of Statistics due to the different labor classification methods. See Footnote 5.

⁹ Bagmati province has the highest share at 19 percent, far greater than the second highest province (Gandaki: 6 percent).

Figure 4. Ownership of Computer and Internet



Source: World Bank staff calculation 2017/18 NLFS

The 2018 NEC collected data from 923,356 establishments, covering all the establishments engaged in non-agricultural activities and registered agriculture, forestry and fishery sectors. Approximately half of these establishments are formal, i.e., registered with the Office of the Company Registrar.¹⁰ These establishments – formal and informal combined – employ approximately 3.23 million people.¹¹ The 3.23 million individuals

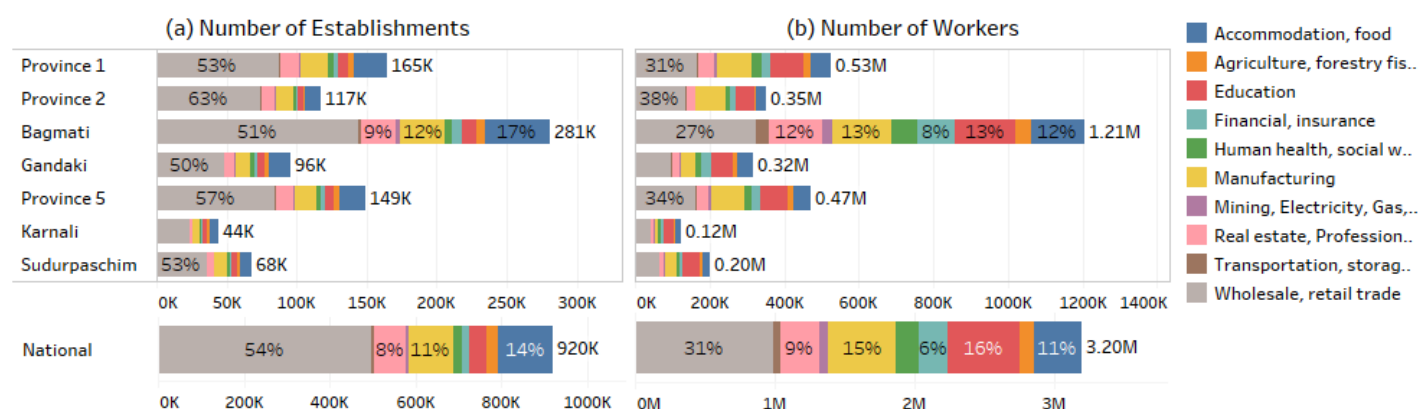
captured in NEC should roughly overlap with the wage earners: “**Work for Pay – Formal**” population and a subset of “**Work for Pay – Informal**” (Figure 2).

Figure 5 shows the distribution of enterprises and workers by province and sector according to the 2018 NEC. Bagmati province has by far the largest number of enterprises and workers, followed by Provinces 1 and 5. “Wholesale, Retail, Trade” is the largest sector comprising 54 percent of the enterprises and 31 percent of workers. The dominance of this sector, both in terms of the number of enterprises and workers, is consistent across all seven provinces and the four types of municipalities.¹²

Which sectors of the economy in Nepal need urgent policy attentions?

An imminent priority for Nepal is to save livelihoods of the most vulnerable workers, including 7.9 million people in subsistence agriculture and 5.9 million people who work in informal sectors. In Nepal, subsistence farmers are much more likely to be poor;¹³ subsistence

Figure 5. Number of Workers by Sectors and Provinces in National Economic Census



Source: World Bank Staff Calculation based on the 2018 NEC.

Note: This excludes subsistence workers.

¹⁰ NEC data for this study does not have information on social security contributions.

¹¹ This includes “all the establishments engaged in non-agriculture economic activities and (registered) agriculture, forestry and fishery economic activities” except for public administration and defense, households producing own goods

and services and extraterritorial organizations. See Government of Nepal (2019a)

¹² Results are available on the interactive dashboards. See Footnote 2.

¹³ Although there is no recent data to link poverty and subsistence farming in Nepal, poverty in Nepal has historically

farming is the only livelihood for the 40 percent of the households where all working adults are engaged in subsistence farming (NLFS 2017/18). These households, without wage earners, either formal or informal, are also much more dependent on migrant workers, many of whom are also affected by the pandemic in the destination countries.

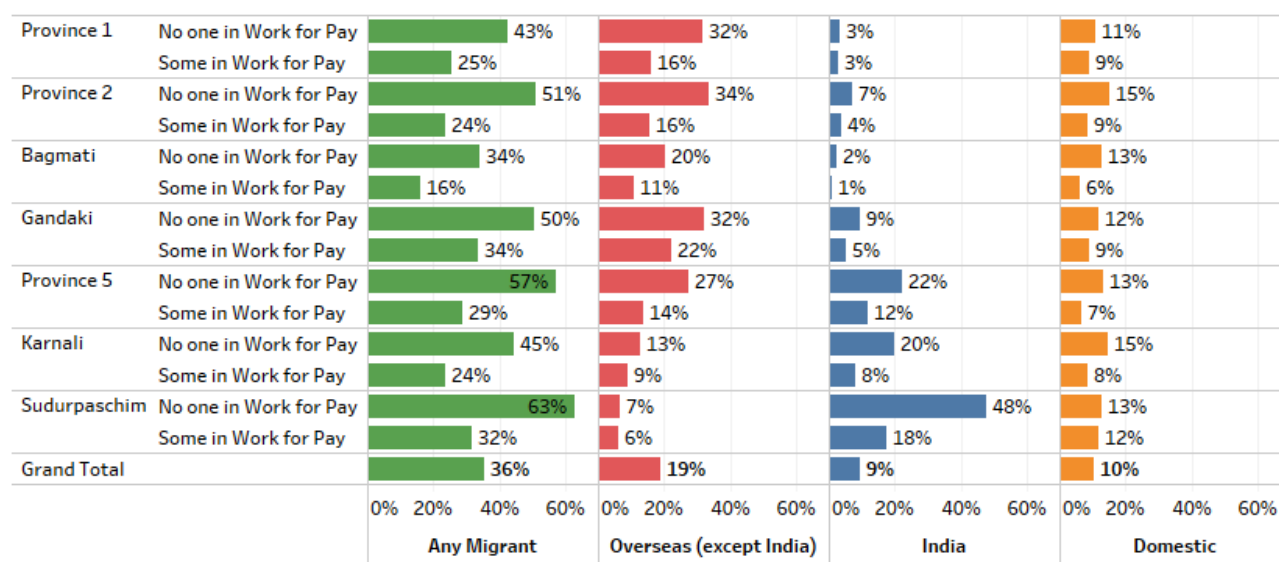
Figure 6 shows the share of households with at least one migrant worker by province and by occupation of working adults. Households with no one in “Work for Pay” are more likely to have migrants, international or domestic, in all provinces.¹⁴ More than 40 percent of such households have at least one migrant worker in all provinces except Bagmati. In Provinces 1, 2, 5 and Gandaki, at least 27 percent of these households have an international migrant not including India, while 48 percent of such households in Sudurpaschim have a migrant worker in India. The slowdown of economic activities in India and other major destination countries of Nepali migrant workers will likely reduce remittance

income for many households and the adverse impact will be more significant for these vulnerable households.

In Nepal and many other countries, the tourism sector is often singled out as the hardest hit. It is indeed true that this sector is most directly and immediately affected by the pandemic and lockdowns due to the suspension of domestic and international travels and reliance on in-person physical interactions.

At the same time, it is noteworthy that the tourism sector explains a relatively small share of the labor market in Nepal. According to the NEC, Tourism, Accommodation, and Food Services sectors combined explains 14 percent of the enterprises and 11 percent of the 3.2 million workers. This equals approximately 371,000 workers (including both formal and informal employments), a mere 2 percent of the total 16 million active labor force, according to the 2017/18 NLFS.¹⁵ Policy attention should also be given to other sectors that employ higher shares of workers.

Figure 6. Shares of Households with Migrant Workers by Province and Occupation



Source: World Bank Staff Calculation based on the 2017/18 NLFS

been concentrated among rural subsistence farmers (World Bank 1991, 2006, 2016)

¹⁴ The same holds true for domestic migrants but the difference is much smaller.

¹⁵ The 2017/18 NLFS also has information of the sector of work for those who work for pay. About 386,000 individuals are in Accommodation and Food sectors with the 95 percent confidence interval ranging from 324,000 to 448,000.

It is important to provide short-term relief to firms in danger of bankruptcy due to COVID-19 that are otherwise viable in order to avoid long-term detrimental impacts on the economy (World Bank 2020a). At the same time, early evidence from the United States shows that providing liquidity to businesses may have diminishing short-term impacts. As long as consumer spending is constrained by health concerns, it may be more effective to provide social insurance to reduce hardship (Chetty et al. 2020). Coupled with the unique challenges for developing countries discussed above, providing direct and immediate relief to the displaced workers and their families is critical in Nepal.

Conclusions

Social assistance programs are the most feasible policy option to provide immediate relief to the displaced workers due to the pandemic and lockdown. This includes the swathes of migrant workers who might return to Nepal in the face of increasing layoffs in the destination countries. Providing top-ups through the existing social protection program is essential to help regular recipients whose livelihoods have been affected by COVID-19. However, it is also critical to reach the broader set of households who were underserved even

before the pandemic, by temporarily expanding the coverage of existing programs or providing relief through new temporary initiatives. Either way, complex design challenges remain such as identification of eligible beneficiaries and implementation of delivery mechanisms that are feasible in the middle of the unprecedented health crisis and social distancing orders (World Bank 2020c; Schmillen 2020).

These policy interventions must be accompanied by long-term efforts to set up a system to monitor labor market conditions on a regular basis and to establish and maintain core registries of households and businesses, so that the government can deliver relief measures when and where necessary (World Bank 2019). The recently conducted NLFS can be a good foundation to start labor market monitoring. The unit level anonymized data from NEC, if made available, could be used to provide much richer insights into the structure of the domestic economy than what is briefly discussed in this note. The establishment of a Social Registry, which would provide information on all poor and vulnerable households in Nepal, is essential to target their regular programs, as well as their relief and recovery efforts to those most in need.

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